

WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
January 5, 2006

The Private Markets Committee met in open public session at 9:04 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
 Debbie Brookman
 John Magnuson
 Sandy Matheson
 David Nierenberg
 Jeff Seely

Members Absent: Senator Lisa Brown
 Treasurer Mike Murphy

Other Board Members
Present: Charles Kaminski
 Glenn Gorton
 Patrick McElligott

Others Present: Joe Dear, Executive Director
 Gary Bruebaker, Chief Investment Officer
 Tom Ruggels, Senior Investment Officer – Private Equity
 Isabelle Fowler, Investment Officer – Private Equity
 Steve Draper, Senior Investment Officer – Real Estate
 Linda Buchanan, Administrative Secretary

 Paul Silver, Assistant Attorney General
 Tara Blackburn, Pacific Corporate Group
 Oren Yahav, Pacific Corporate Group
 Michael Shannon, KSL Capital Partners
 Eric Resnick, KSL Capital Partners
 Thomas Kubr, Capital Dynamics
 Gordon Bonnyman, Charterhouse Capital Partners
 Duncan Aldred, Charterhouse Capital Partners

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 9:04 a.m. with Chair Masten identifying members present.

ADOPTION OF MINUTES – DECEMBER 1, 2005

Ms. Brookman moved to adopt the minutes of December 1, 2005.

Ms. Matheson seconded, and the minutes were adopted unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – KSL CAPITAL PARTNERS II, L.P.

Mr. Ruggels introduced himself and stated that staff recommends an investment of up to \$100 million in KSL Capital Partners II, L.P., a \$750 million (target) fund that will make private equity investments in travel and leisure businesses. This investment would be a new general partner for the WSIB; however, the Board has a long, indirect relationship with KSL through several KKR investments. Mr. Ruggels described the fund's experienced management team, strong track record, investment strategy, fit in the WSIB portfolio, key person issues, first-time fund and track record attribution concerns, potential conflicts stemming from the ownership and relationship of KSL Management, labor issues, and sector risk.

Ms. Blackburn, Pacific Corporate Group, explained that the fund is considered a private equity rather than a real estate investment and discussed the terms and advantages of the KSL Management platform.

The Committee discussed the working relationship between KSL Capital Partners and KSL Management and related potential conflict of interest, as well as the firm's realized returns, management fees, partnership compensation, experience, expertise, labor issues, and investment strategy.

Mr. Shannon and Mr. Resnick, KSL Partners, introduced themselves. They described the firm's history, investment strategy, sector focus, experience in multiple market cycles, deal flow, track record, investment team, risk mitigation, alignment of interests, operating performance, diversification, and relationship with KSL Management.

The Committee questioned Mr. Shannon and Mr. Resnick regarding potential market risks, market trends, diversity of revenue, compensation of KSL Management, experience, expertise, labor issues, fee structure, advisory committee, and personnel.

Ms. Brookman moved that the Private Markets Committee recommend to the Board an investment of up to \$100 million, plus fees and expenses, in KSL Capital Partners, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.

The Committee discussed the size of the recommendation, terms, fees, target demographics, and the outcome of negotiated issues regarding the recommendation.

The motion carried unanimously.

[The Committee recessed at 10:51 a.m. and reconvened at 11:03 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – CHARTERHOUSE CAPITAL PARTNERS VIII, L.P.

Ms. Fowler introduced herself and stated that staff recommends an investment of up to €125 million in Charterhouse Capital Partners VIII, L.P., a €3.5 billion (target) fund which will make investments in management buyouts, corporate restructurings, and similar transactions in a small number of high quality investments in Western Europe. She described the firm's reputation, expertise, deep and experienced team, investment approach, access to proprietary information, extensive network of relationships, performance history, generational transition plans, increased fund size, and anticipated number of investments.

Mr. Kubr, Capital Dynamics, introduced himself and described the firm's reputation, strong track record, geographic focus, and investment strategy.

The Committee discussed the firm's organization, performance record, size of the investment recommendation, co-investment opportunities, and competition with other WSIB partners.

Mr. Bonnyman and Mr. Aldred, Charterhouse Capital Partners, introduced themselves and described the firm's reputation, experience, expertise, investment team, investment strategy, and investment performance.

The Committee questioned Mr. Bonnyman and Mr. Aldred regarding the history of one specific portfolio company, co-investment opportunities, and the size of commitment available to the WSIB. While conducting due diligence, staff was aware that the fund was over subscribed and had a waiting list of investors that wanted to invest in the fund. Capital Dynamics has a very long standing relationship with Charterhouse Capital Partners. Mr. Kubr met with Mr. Bonnyman and Mr. Aldred earlier in the day to discuss the possibility of the WSIB securing a higher commitment amount given our stature in the private equity marketplace.

Mr. Bonnyman stated that while the fund is oversubscribed he would do what he could to secure the WSIB another €25 million if they were interested. Due to the Charterhouse Capital Partners' reputation, expertise, deep and experienced team, investment approach, access to proprietary information, extensive network of relationships, and performance history, staff was very supportive of an increased investment of up to €150 million, plus fees and expenses subject to continued due diligence and final negotiation of terms and conditions.

[Mr. McElligott was no longer in attendance at 11:40 a.m.]

Ms. Brookman moved that the Private Markets Committee recommend to the Board an investment of up to €150 million, plus fees and expenses, in Charterhouse Capital Partners VIII, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.

Chair Masten announced that the Committee would go into executive session under the provisions of RCW 42.30.110(1)(k) to discuss financial and commercial information relating to the investment of retirement funds since public knowledge regarding the discussion would result in loss to the funds managed by the Board or would result in private loss to the providers of the information. The executive session was expected to last until approximately 1:30 p.m., at which

time the Committee would reconvene in open session and adjourn. The Committee expected to take no further action.

[The executive session convened at 11:48 a.m.]

REAL ESTATE ANNUAL PLAN

[The Committee recessed at 12:48 p.m. and the executive session reconvened at 1:07 p.m.]

PRIVATE EQUITY ANNUAL PLAN

[Ms. Matheson was no longer in attendance at 2:17 p.m.]

[Mr. Gorton was no longer in attendance at 3:01 p.m.]

[Mr. Masten was no longer in attendance at 3:10 p.m.]

[The regular session reconvened at 3:30 p.m.]

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 3:30 p.m.